



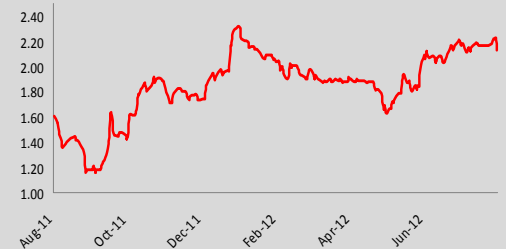
22 August 2012

Supermax Corporation

1HFY12 below expectations

OUTPERFORM ↔Price: **RM2.13**Target Price: **RM2.50** ↔

- Period** ■ 2Q12/1H12
- Actual vs. Expectations** ■ 1H12 net profit was recorded at RM58.0m. This number is within the consensus' full-year estimate of RM120.0m (~50%) but only accounted for 38% of our full-year forecast of RM154.4m.
- The below than expected results were mainly driven by lower than expected top-line growth. The accumulative YoY revenue growth rate was almost flat at 0.3% in contrast to our growth forecast of 15%. Margin wise, the estimated net profit margin of 13.1% is not far from 1H12's 12.0%.
- Dividends** ■ No dividend was declared.
- Key Results Highlights** ■ **YoY**, while the Group sold about 18% more rubber gloves but recorded a slight 2.4% decrease in revenue due to lower (about 20%) average selling prices ("ASPs") in tandem with lower raw material prices in the past 1 year. However, the lower latex (~27%) and nitrile (~15%) prices and coupled with improved operating efficiency had led to improved PBT and net profit that rose by 39.1% and 32.5% YoY respectively.
- **QoQ**, the Group's revenue was lower by 6.6% but PBT and net profit rose by 8.4% and 7.1%, respectively, due to the above-mentioned reasons.
- As a result, accumulative 1H12 net profit of RM57.9m was 26.5% higher than RM45.8m in 1H11 (despite a higher effective tax of 9.3% in 1H12 as opposed to 4.8% in 1H11) on the back of a flattish revenue growth of 0.3% (1H12: RM480.6m, 1H11: RM479.3). Again, the flat revenue was due to lower ASPs which was more than offset by strong improve in profit margins.
- Outlook** ■ We see a resurgent in the glove industry with the underlying downtrend in the industry's main cost components - prices of natural rubber and nitrile.
- On demand side, we understand that despite the slowdown in the Eurozone and US, demand for gloves, both natural rubber and nitrile, remains robust judging from the Group's oversold position has lengthened to about 3½ months as buyers gradually move back to their normal buying pattern instead of buying the bare minimum in response to the extreme volatility in glove prices seen in the last 1½-2 years. Strong demand growth is also seen from other regions such as from the Middle East, Africa as well as Asia.
- Revenue to be driven by capacity expansion going forward (see overleaf for details).
- Change to Forecasts** ■ While the results were below than expected, we maintain our earnings forecasts for now pending for our meeting with the management.
- Rating** ■ **Maintaining OUTPERFORM** due to approximately 17% upside from here to our TP.
- Valuation** ■ Our TP of RM2.50 is based on 11x to FY12 EPS of 22.7sen. The targeted PER of 11.0x is the lower end of its average historical PERs of 11.0x-13.0x.
- Risks** ■ Higher latex price and stronger ringgit.

Share Price Performance

KLCI	1649.79
YTD KLCI chg	7.8%
YTD stock price chg	11.2%

Stock Information

Bloomberg Ticker	SUCB MK Equity
Market Cap (RM m)	1,448.7
Issued shares	680.2
52-week range (H)	2.38
52-week range (L)	1.13
3-mth avg daily vol:	2,173,443
Free Float	55%
Beta	1.5

Major Shareholders

KIM SIM THAI	20.4%
BEE GEOK TAN	15.1%
EPF	9.3%

Summary Earnings Table

FY Dec (RM'm)	2011A	2012E	2013E
Turnover	1026.9	1177.7	1308.6
EBIT	91.2	156.2	195.0
PBT	113.0	171.3	208.2
Net Profit (NP)	106.1	154.4	187.6
Consensus (NP)	-	126.5	143.2
Earnings Revision	-	-	-
EPS (sen)	15.6	22.7	27.6
EPS growth (%)	-0.3	0.5	0.2
GDPS (sen)	4.8	6.0	7.0
NTA/Share (RM)	1.1	1.3	1.5
PER (X)	13.7	9.4	7.7
Gearing (%)	0.3	0.1	0.1
Dividend Yield (%)	2.2	2.8	3.3

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Other Points - Expansion Plans

Expansion of Surgical Glove Capacity. The surgical glove capacity expansion at the Sg Buloh plant is progressing with 4 of the 7 lines planned having been commissioned since May 2012. The remaining lines will continue to be commissioned in stages. Currently, surgical gloves are oversold by 6 months.

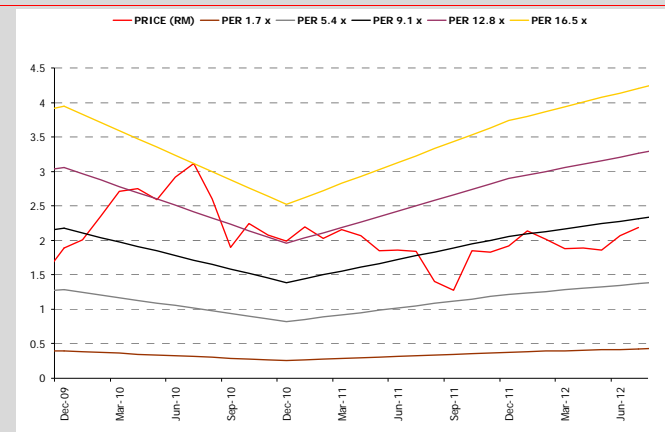
Expansion of Nitrile Latex Examination Gloves Capacity. Besides surgical gloves, the Group is also moving ahead with its plans to build & complete plants #10 and #11 over the next 1½ years in Meru, Klang. These new plants will have lines that are built to be inter-switchable between natural rubber and Nitrile glove production but have currently been earmarked for Nitrile in tandem with market demand. Works are also ongoing to refurbish the older plants by replacing old lines with the latest advanced & more efficient lines to enhance production yields. When these 2 new plants as well as the converted plant are fully commissioned by the 4Q13, it would more than double the Supermax Group's current Nitrile capacity from 5.2b pieces p.a. to 10.5b pieces p.a.. This increase in production capacity will result in Nitrile Gloves forming 52% of the Supermax Group's total installed capacity while NR Latex Gloves will form the balance 48%.

Result Highlight

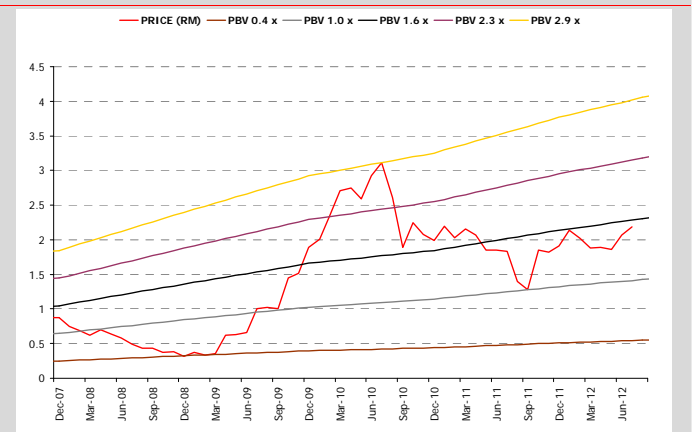
	2Q	1Q	QoQ	1Q	YoY	1H	1H	YoY
FY Dec (RM 'm)	FY12	FY12	Chg	FY11	Chg	FY12	FY11	Chg
Turnover	232.1	248.5	-6.6	237.9	-2.4	480.6	479.3	0.3
EBITDA	40.2	30.2	33.2	25.1	59.9	70.4	49.6	41.8
EBIT	28.6	24.4	17.4	19.1	49.7	53.0	37.6	41.1
PBT	33.3	30.7	8.4	23.9	39.1	64.0	53.6	19.5
Net Profit (NP)	30.6	27.3	11.8	22.6	35.0	57.9	45.8	26.5
EPS (sen)	4.4	4.1	7.0	3.3	32.5	8.5	6.7	26.8
DPS (sen)	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
EBITDA margin (%)	17.3	12.1		10.6		14.6	10.3	
EBIT margin (%)	12.3	9.8		8.0		11.0	7.8	
PBT margin (%)	14.3	12.4		10.1		13.3	11.2	
NP margin (%)	13.2	11.0		9.5		12.0	9.5	
Effective tax rate (%)	9.9	8.7		5.4		9.3	4.8	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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